

**State of Alaska**  
**ALASKA RETIREMENT MANAGEMENT BOARD**  
**OPERATIONS COMMITTEE MEETING**

**Videoconference**

**MINUTES OF**  
**September 16, 2020**

**Wednesday, September 16, 2020**

**ATTENDANCE**

**Committee Present:** Rob Johnson, *Chair*  
Lorne Bretz  
Gayle Harbo  
Commissioner Tshibaka (Late)  
Bob Williams  
Norman West

**Committee Absent:** None

**Other Trustees Present:** Commissioner Mahoney  
Dennis Moen

**IAC Members Present:** None

**Department of Revenue Staff Present:**  
Zachary Hanna, Chief Investment Officer  
Pamela Leary, Director, Treasury Division  
Scott Jones, Head of Investment Operations, Performance & Analytics  
Stephanie Alexander, Board Liaison  
Mike Barnhill, Deputy Commissioner  
Hunter Romberg, Investment Data Analyst  
Grant Ficek, Business Analyst

**Department of Administration Staff Present:**  
Kevin Worley, CFO, DRB  
James Puckett, Deputy Director, DRB

**Others Present:**  
Stuart Goering, Assistant Attorney General, Department of Law  
Rose Foley, Public

## **I. CALL TO ORDER**

MR. JOHNSON (ACTING CHAIR) called the meeting of the ARM Board Operations Committee to order at 3:00 p.m.

## **II. ROLL CALL**

MR. JOHNSON, MR. BRETZ, MS. HARBO, MR. WILLIAMS, and MR. WEST were present at roll call. COMMISSIONER TSHIBAKA joined later.

## **III. PUBLIC MEETING NOTICE**

MS. ALEXANDER confirmed that public meeting notice requirements had been met.

## **IV. ELECTION OF CHAIR**

MR. JOHNSON announced the need to elect a Chair.

MS. HARBO nominated MR. JOHNSON. MR. WILLIAMS seconded the nomination. With no objection, MR. JOHNSON was elected Chair.

## **V. A. APPROVAL OF AGENDA**

MS. HARBO moved to approve the agenda. MR. WEST seconded the motion. The agenda was approved without objection.

## **B. APPROVAL OF MINUTES: April 30, 2020 and June 17, 2020**

MS. HARBO moved to approve the minutes of the April 30, 2020 meeting. MR. WEST seconded the motion.

MR. BRETZ noted that the verb “argued” be removed and replaced with “state” in a conversation located on page 5 of the packet. MR. WEST seconded the motion. The minutes of April 30, 2020 were approved, as modified.

MS. HARBO moved to approve the minutes of the June 17, 2020 meeting. MR. WEST seconded the motion. The minutes were approved without objection.

## **VI. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.**

## **VII. MIDDLE OFFICE UPDATE**

MR. JONES stated that there are two projects that they have been working on. The first is the lagging of the alternative investment asset values in the ARMB performance reporting. Callan finished the preliminary 6-30 returns but will not get the final alternative asset valuations in until next week. After Callan finishes the final 6-30 returns, we will work with them to start the lagging process for the 9-30 returns.

The second project is the ISO 27000 review that was completed by Worldwide Technologies. Treasury has received the final report and staff plans to discuss the report with the committee at the

December meeting.

CHAIR JOHNSON stated that he has been involved in conversations about cyber security and whether it is at Operations Committee level or the ARMB level he invites the Department of Revenue to consider a discussion in an Executive Session with the Board or committee on the more sensitive matters. MR. JONES agreed that discussions of security issues would be more appropriate for an Executive Session.

## **VIII. BUDGET CONSIDERATION**

### **1. REVIEW FY2020 FINAL BUDGET**

MS. LEARY said that there are three documents for review, the budget document, the comparative schedule, and an action memo. She first reminded all attending of the budget development process as it only happens once a year. She stated that each September Treasury prepares the ARMB budget. The numbers that are presented to the Legislature and OMB are usually salaries, travel, all operational services and costs, and management fees. She went on to explain that the ARMB budget is built by looking at prior year costs and adjusting all of the budgeted amounts for new costs, changes in cost allocation method or any known budget constraints to ensure sufficient authorization to meet the needs. MS. HARBO asked if the fees for investment performance include real estate. MS. LEARY confirmed that it does. MS. HARBO also asked if the additional \$200,000 that shows up in the FY22 budget was for whoever was hired for the audit. MS. LEARY confirmed that was correct.

### **2. REVIEW FY2021 AS APPROVED BY: LEGISLATURE**

MS. LEARY explained that the management fees decreased significantly from FY19 to FY20 and is also depicted in the budget actuals. She also said that the fees will continue to go down but not as dramatically.

MR. HANNA stated that it is expected that the FY21 numbers are probably a reasonable proxy for the kind of fees moving forward for the ARMB's current portfolio structure. CHAIR JOHNSON asked if they needed to go into riskier investments, the story might change. MR. HANNA stated that he thought that was a fair guess. MR. WILLIAMS mentioned that Callan has a report on overall fees, and it shows that institutional investors have been able to lower fees over time but private equity fees vary from year to year depending on what phase it's in. Is it meaningful to have private equity fees being compared from one year to the next or does it not make sense? MR. HANNA stated that he thought it was a byproduct of two factors. First, the private equity program is growing and is an expensive asset class. Second, the reporting of fees that are paid versus those like private equity that are already netted out of the returns.

### **3. REVIEW PROPOSED FY2022**

#### **ACTION: FY2022 ARMB BUDGET PROPOSAL**

MS. LEARY recommended that the ARMB Operations Committee recommends to the Board that it adopt the FY2022 proposed budget as attached to the packet with the understanding that the components are subject to appropriation by the OMB and the legislature.

MS. HARBO moved that it be approved. MR. WEST seconded the motion.

CHAIR JOHNSON asked for discussion on the motion which is to forward the budget. With no further questions or comments, he asked MS. ALEXANDER to take a roll call vote, the motion was passed unanimously.

#### **IX. FIDUCIARY DISCUSSION - INDEMNITY AND DEFENSE (AS 37.10.280)**

CHAIR JOHNSON introduced MR. GOERING to respond to a question asked by MR. WEST. MR. GOERING reminded them that the fiduciary duties are listed in two statutes, AS 37.10.07(1)(c) which requires they apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the fund. The second statute, AS 37.10.120(a) which additionally states that they have fiduciary obligations to manage and invest the assets in a manner that is sufficient to meet the liabilities and pension obligations of the systems, plan, program and trusts. He stated that AS 37.10.07(1)(d) which states that “a fiduciary is liable for a breach of duty that is assigned under this section.” The provision also states that there is a safe harbor, that they are not liable for a breach of duty that has been delegated to another person. He stated that the majority of the actual hands-on investing work is done by either the Treasury staff or by external managers, so they have a safe harbor as Trustees. He also encouraged them to utilize the ability to delegate as much as is prudent and possible. He stated that they are not entitled to a safe harbor if they actually participate in or conceal the act or omission of another person. It would be unlikely that an individual Trustee would be in that position as they generally do not act independently, with exception of the Chair. The second loss of the protection of the safe harbor is if they fail to follow the specific responsibilities under AS 37.10.220. The third loss of safe harbor occurs if a Trustee or the Board as a collective has knowledge of a breach of duty by another person, unless reasonable effort is made to remedy the breach. Assuming none of these things happen and someone brings a claim against the board for an act or omission, the state under AS 37.10.07(1)(e) has the responsibility to defend and indemnify them. He stated the if the court determines that there is liability, the indemnity provision would kick in which means that even if they were found liable, as long as they qualified for the safe harbor and acted in good faith, the state would actually pay the settlement or judgment that was against the Trustees.

MR. WEST asked if a failure to act is a possible area of fiduciary exposure. MR. GOERING confirmed that was the case and that they need to exercise prudence in all aspects.

MR. GOERING discussed a provision in AS 37.10.280 that provides the Board with the ability to purchase insurance or to provide self-insurance retention in amounts recommended by the Commissioner of Revenue and approved by the Board to cover acts and omissions. Under the Department of Administration there is a self-insurance fund which is a function of that department.

CHAIR JOHNSON asked if it would be prudent to inquire of the Commissioner of Revenue as to whether an assessment should be made of that insurance option. MR. GOERING stated that he was not aware as to how that has been handled and that it falls in the category of if you see something, say something. CHAIR JOHNSON further asked if it would be appropriate to make that inquiry. MR. GOERING suggested that they think about it and if they have concerns, either individually or as a board, that they follow up on it.

CHAIR JOHNSON suggested that it deserves an inquiry of MS. LEARY as to whether there has been an assessment on this matter. He further asked if there are any objections from the committee as to going forward with this. Not hearing any objections, he stated that MS. LEARY and MR. GOERING could look at the concept.

**X. SCOPING FOR FUTURE MEETINGS**

**A. CALENDAR DISCUSSION**

**B. POTENTIAL TOPICS**

MR. BRETZ stated that in reviewing discussions in the April 30<sup>th</sup>, 2020 minutes, he questioned why the policy manual needed revising if the language had been in place for years and nothing listed was contrary to legislation. He stated that the explanation that it is a simplification which allows for the appropriate authorities to interpret the law as they believe is correct and removes language that suggests the Board may interpret the law in a particular way leaves much to interpretation. He then requested a detailed travel history of the ARMB Trustee travel for the last five years be prepared for the Operations Committee and listed the details needed to include who, why, honorarium costs, per diem costs, dates of travel, dates of meetings, departure and destination cities, and lodging expense with location city.

CHAIR JOHNSON asked for clarification. He believed MR. BRETZ asked for an analysis of the language that was proposed for the revisions in the policy manual and also the expenditures for travel by the ARMB members. MR. BRETZ stated that he is requesting data on the travel expenses.

CHAIR JOHNSON asked MR. LEARY if her staff would be able to assemble that information. She confirmed they could do that. CHAIR JOHNSON stated that they should have that assembled and prepare it for discussion at the subsequent committee meeting.

CHAIR JOHNSON stated that he would like to discuss the communication received from interested parties regarding various issues. He stated that he would like to get the committee's consideration of what should be done in response to those letters. He said that it would be a little difficult to respond to all the letters as a Board. He suggested a discussion at a future committee meeting with input as to what could be done with written communications that are addressed to the Board and how to respond if at all.

MS. HARBO stated in response to MR. BRETZ's request, she requests that they go back 10 years.

CHAIR JOHNSON suggested to MS. LEARY that, that is the requested action. MS. LEARY said that they will do their best.

**XI. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE - None.**

**XII. PUBLIC/MEMBER COMMENTS – None.**

**XIII. ADJOURNMENT**

MS. HARBO moved to adjourn the meeting. MR. BRETZ seconded the motion. The motion passed without objection.

The meeting was adjourned at 4:00 p.m.

**ATTEST:**

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Corporate Secretary

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and more presentation details, please refer to the recording of the meeting and presentation materials on file at the ARMB office.